

Speech
Of
Philip Angelides
Treasurer
State of California
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(Edited remarks)

Thank you all for having me here today. I want to start off by congratulating you on your 30th Anniversary and, more importantly, by thanking you for what you are doing to set an example and to be a good role model for the corporate sector in California by the work you do to create affordable housing and to invest in those communities that, absent the effort of leaders like yourselves, would be left behind as California moves into the 21st Century.

What I'd like to do today is talk about the challenges on which we can work together in the years ahead as California does hopefully embark on a new era of activist creativity. And I come here to say that I need and I want your engagement in my role as State Treasurer and I want it on two fronts that I believe are important to all Californians, but are particularly important to those of us that have a passion and a commitment for community reinvestment and community building.

The first of those challenges is how California best grows into the 21st Century- how it sustains itself economically while still making sure that this is a strong place to be environmentally and socially.

And the second challenge - - which is really a subset of the first - - is how do we build new political and corporate momentum for investing in the California that has been left behind, so that in 50 years, we see a state that is economically strong, that is the best in terms of environmental quality, and that holds together as a successful state economically for everyone, as opposed to a state with strong pockets of desperation and folks who have been left behind.

I see these challenges as central to what I want to do as Treasurer and I want to speak to you today as allies.

Let me talk first about the issue of sustainable development and how California remains economically strong in the years ahead.

We are going to grow, and those of you who are in lending, who have been in housing, know that there is a large force that brings people to California. It is the force of hope.

In the next ten years, we are going to grow by six million people, the decade after that the projections are

another four to six million. And it seems to me that if we want to be a good place to live in 50 years, we need to think hard about how we're growing and whether we can environmentally sustain our present patterns of growth and whether we can socially sustain them.

And I believe deeply we must rethink the way in which we grow so that on the economic front, California is not less attractive to companies that want to locate here because of environmental degradation, because of a failed transportation system or because of a lack of housing.

I want to make sure that we're the best place to live environmentally and I also want to make sure that we grow in ways that allow our state to afford to finance the infrastructure we need in the years ahead.

It is clear that we have tremendous growth pressures that are creating substantial impacts in our society.

Those of us in housing know that we have a substantial housing crunch, which was somewhat abated in the public eye during the recession, because you didn't have quite the squeeze evidenced that you have today. We're a state that needs 200,000 new units a year and we're consistently producing about half of that.

We're a state that has eleven of the 25 least affordable housing markets in the country and we've now got

half of our renters paying more than 30 percent of income for rent.

But it's about more than just that economic squeeze. We're also a state that, because of our growth pressures, faces tremendous environmental challenges. Seven of the fifteen worst air quality basins in the country are here in California. In terms of traffic, which really is a key determinant of your ability to succeed long term economically because of the mobility of people and goods, we've seen a 70 percent increase in the last decade alone in the amount of time that Californians sit idle in traffic, and last year we had a state in which 300,000 hours per day were spent by Californians sitting idle in traffic and that's a productivity loss we can't afford.

So I believe strongly that the challenge before us is to continue to grow and to grow in more intelligent ways and more thoughtful ways and to grow in ways that are sustainable in terms of California's economic growth.

And I mean sustainable politically, socially, fiscally and environmentally.

When we talk about sustainable growth -- I tried in my own private sector work to adhere to some of these principles -- I think we need to be thinking in the following ways.

We need to be thinking about transportation and ways to move people and goods that is not just about more lanes on a freeway and a mad rush to accommodate all Californians traveling in single occupancy automobiles. It is a dynamic we cannot afford fiscally and environmentally.

We need to think about how to give Californians more transportation options, particularly for the day when gasoline may be priced in this country as it is priced in every other industrialized country in this world. And particularly with the thought that our air quality basins cannot stand much more in the way of stress if we continue to be solely auto dependent.

It's also about land use patterns -- clustering density around transit and better connecting land uses so that not every trip has to be by automobile and Californians are given more options both within their communities and for extra-communal travel.

So, new thinking about the transit options for Californians.

Secondly, it's about better mixing of housing. I am deeply concerned that we are rapidly becoming two Californias -- divided by race and class and as reflected in our land use.

When I look at the communities built in pre-war California, like the neighborhood in which I live in Sacramento that has this great mix of housing -- 5,000 square foot homes next to 1,000 square foot California bungalows, next to apartments, next to small scale retail -- I ask myself if these communities were the product of a much more progressive era of Californians. I think not, because a lot of those communities also had racial covenants attached to them.

Rather, they were a reflection of the fact that demand and size of the market, could be accommodated in relatively small spaces. Developers in the 1920's did what developers do today, they figured they needed a certain number of large lots, medium size lots, small lots, apartments, but those fit within a compact neighborhood.

Today, we're designing communities where 1,000 large lots are in one location, 1,000 medium size lots are in another, 1,000 small lots in another, 1,000 multi-family units in yet another. The sheer demand and size of growth in California requires us to be much more aggressive in mixing housing types and mixing uses than we've ever been before, to break down the barriers of race and class separation.

Transportation, housing, community design. In an era in which, again, the magnitude of growth and demand is so large, we must give renewed attention to help communities work at the ground level for human beings.

We must put a greater emphasis on common, shared spaces around which communities should be designed; greater emphasis on simple notions like narrower streets, tree-lined streets, and front porches; and renewed emphasis on communities that hold together.

And yes, we must increase densities. Both in terms of infrastructure expenditures and in terms of consumption of land, we must view all our resources as precious and we must find ways to increase density in thoughtful, well designed ways that accommodate California's growth in the years ahead.

And so I'm a believer in that we must continue to grow but we must change the way we grow.

This will not be easy. And it won't be easy because the land use patterns that grew up in the last 50 years took 50 years to come into being. The fact is that it will take a lot of work, a lot of change in market forces, a lot of change in land use practices to change the direction of how we grow, and I have no illusions about the fact that there are large forces at work here.

For example, national retail providers now provide services in 110,000 square foot boxes.

National home builders have a set of plans that may or may not work in terms of a given community's design. It is not just about governmental land use processes, it is also going to be a market dynamic in going forward.

But I also want to say that I don't see the sustainable development movement as merely an environmental question -- how do we keep California environmentally attractive over time? I see the battle as also about how we make sure that all of California succeeds. We are not growing successfully as a state when race and class and success and failure are reflected in our land use patterns.

So I very much believe that as part of the sustainable development movement, we must have a new policy commitment in this state to reinvest in the California left behind, particularly paying attention to the neighborhoods that we have routinely thrown away in 25 year cycles. We must make an effort to save those neighborhoods that have been lost and also make sure that we put in the time, the effort, the commitment to make sure that those marginal neighborhoods, those "swing" neighborhoods that, with a little more home ownership, good quality rental housing, job opportunities,

can become viable successful neighborhoods in the decades ahead.

Our challenge is a difficult one because so much of the discussion today in California is about how well we're doing. And as a whole, we are doing well. Unemployment rates are less than six percent with a surging economy and new job growth, but we all know that there are problems.

That story of success is not true in Lynwood and Bell and Compton and East Palo Alto. It's not true among African-American youth. It's not true in a state where we have the largest gap between rich and poor of all states except four in this country and 13 and one half percent of all of our children live in poverty.

And as Walter Lippmann said in 1965, "We have neglected our own affairs. Our education is inadequate. Our cities are badly built. Our social arrangements are unsatisfactory. We can't wait another generation." And I believe that applies to California today.

A good friend of mine, a college classmate, and like me a Sacramento native, Harvard Professor of African-American Studies Cornel West writes in "The Future of American Progressivism," that "we now sit in a world of advanced sectors and regions connected with one another and

weakly linked to the backward sectors and regions of their own societies."

And unfortunately, that's all too true of California.

So I'm here today to join you, hopefully, in a new commitment - a commitment that supports sustainable growth for California and also a commitment that recognizes that a key part of sustainable growth is a reinvestment in the urban neighborhoods of California.

I believe that the challenge will be a difficult one and it's not just about more economic investment and I know that. It will require, for example, that policy makers make a level of commitment to urban education that has not yet been on the table.

There was a recent study that came out in San Diego called "Measuring the Achievement Gap in San Diego City Schools." It looked at 16 high schools in San Diego, and the findings were so simple, but they're worth repeating.

They looked at these 16 schools and found that in the four richest schools, combined SAT scores were 100 points higher than those in the poorest four schools.

Student drop out rates in the poorest schools were five times higher than those in the richest schools. Only one in five kids in the poorer schools met UC/CSU standards

and half the kids in the richest schools met those standards.

Another example of two Californias, where the well off in society are in a position to take advantage of our substantial growth and where those who live in the least successful neighborhoods are behind the curve of the California dream.

It will be a large challenge, but here are four ways which we can think about beginning to make the commitment.

First of all, local and state governments have got to make it easier to invest in distressed communities. And while there's rhetoric about infill development, it's rarely followed by true commitment.

And it's time that state land use policy and local government decision makers begin to make a real commitment to making sure that infill development can happen.

Secondly, public financial resources have to be directed to reinvestment in a way that we haven't done historically. We must focus public resources on the goal of a California that's successful for all.

And so for example, as I look at the housing tax credit program and as we look at redesigning the tax credit process -- a process in which we award over \$400 million in federal and state tax credits a year -- and as we look at

the California debt limit allocation process -- a process where we award \$1.6 billion in tax exempt financing for housing, economic development and student lending -- I see great opportunities to invest capital in the neighborhoods in California that need it most.

As Treasurer of California, I also sit on the Board of the Public Employees Retirement System and the State Teachers Retirement System, the largest pools of capital in the world with \$240 billion of assets. I am required, and I believe deeply that I have a fiduciary responsibility to be the best possible investor of those funds.

But I absolutely believe that with work and with effort and with creativity, we can find good investments in the emerging markets of California just as we have found them in emerging markets across this globe.

And so secondly, those resources which the public sector can affect need to be driven towards the goal of reinvestment.

Thirdly, as we look at making major infrastructure investments in California's future -- by all accounts we are a state that in the next decade will invest \$50 billion to \$100 billion repairing our existing infrastructure and laying down new infrastructure to ballast the economic growth in this state -- we must make a new commitment to

fixing up the infrastructure in the existing communities, so that those communities have the best possible chance to succeed.

Now I have no illusion given the magnitude of growth that we're going to face, that all new growth or all new investments will occur within existing neighborhoods. It will be a blend of growth at the urban fringe and reinvestment in our existing urban communities. But absent that reinvestment in our existing communities, we will have such an explosion of growth at the fringe that it will set off environmental degradation, political revolt and a set of mobility and infrastructure issues that will challenge our economic progress.

As part of directing infrastructure investments, it's time that California give back to its existing communities the right by majority vote to decide if they want to fix up their schools, if they want to improve their community parks, if they want to improve their transit systems.

And the communities most disadvantaged by the two-thirds vote rule are the older, existing communities that with some effort and some attention to their quality of life could sustain themselves in the years ahead.

And finally, this isn't just going to be a government job. It's going to be about building partnerships with the

private sector. In fact, one of the most exciting things about my job is, in some ways, it's a quasi-public job in the sense that, yes, I'm part of the political leadership in Sacramento, but I have relationships with financial institutions across this globe. And what I want to do is use my position to build relationships and partnerships to move private capital into the markets in California that need it most so that we can all succeed.

And I look at you as partners. And I look at SAMCO as a great example of what the private sector, well-minded can do and accomplish -- the goals of doing well financially and doing well by society.

One of the things that I've noticed most of all since I became Treasurer, is the struggle we face to get capital decision makers to look at opportunities in what I call the emerging markets of California.

We live in an interesting time in which our economy and our investment patterns are global. I think it's a good thing that American capital is invested all over this globe and that it is playing a role in bringing up developing and emerging nations all over this globe.

But we have missed great opportunities in our own society and we have too often overlooked them. And I want to ask you to join me in trying to get capital sources to

do what SAMCO has done, which is find, with some effort, those investments that make sense financially and make sense for this society.

I don't need to sell you, but I will tell you, everywhere I go now, I'm trying to paint the contrast between opportunities in the cities of California, and places like the San Joaquin Valley, and the risks we face in many of the emerging markets in which our pension funds and our private capital sources place tens of billions every day.

I'll say this about America's emerging markets -- we don't have currency risks; we don't have the risk today of a revolution; and we don't need a CIA or State Department report to underwrite the investment.

I will spend two full days later this week as a member of the Public Employees Retirement System Board in our international investment workshop, a large part of which is just understanding the fundamental risk of being in those markets.

And so I ask you to join me to try to get American capital to look at home again.

The Milken Institute just came out with a study about a month ago, called "Mainstreaming Minority Business" in which they pointed out the fact that one of the great

growth phenomenon in American society today is the growth of minority businesses. There were two million minority owned businesses in this country in 1992 with sales of about \$205 billion. In 1998, there were 3.5 million of them with sales of \$605 billion.

The Latino consumer market has gone from an \$80 billion market in 1982 to a \$282 billion market today.

But the Milken Institute also noted that there's a tremendous capital shortage for those growing minority businesses, so one thing we're doing is seeing if we can't put together a secondary market for minority business loans.

Your work and the Community Reinvestment Act have shown, over the last 20 years and, in your case 30 years, that with effort good investments can be found.

So here's how I'd like us to work together. I need your help, because this is an issue that in many ways is not four square in the minds of most policy makers. It's not an issue that gets one a lot of votes. It's not the sexiest issue to talk about how we lift up those parts of California that are left behind.

I want your engagement on the following points.

As California debates how we grow, where infrastructure investments ought to be made, what our land

use patterns ought to be, I hope you'll stand up for sustainable growth, for smart growth which is a combination of better land use patterns and infrastructure investments at the urban fringe, with a new recommitment to investing in the urban core of California.

I want you to help me fight at the State Capitol for more resources for affordable housing.

Assemblyman Tom Torlakson from Contra Costa is carrying Assembly Bill 97 which would make the State tax credit for low income housing \$50 million a year on a permanent basis. We need your help.

Senator Alarcon from Los Angeles is carrying Senate Bill 510 and Assemblywoman Carol Migden from San Francisco is carrying Assembly Bill 389 to place close to a billion dollar bond measure on the ballot to provide assistance for multi-family housing and also some assistance for low income home ownership.

And I'm involved with both Senator Polanco on the Senate side and Assemblyman Fred Keeley on the Assembly side to ask California insurers to be subject to the Community Reinvestment Act obligations that have been successfully imposed on lenders in this country for the last 20 years.

And we just moved Keeley's Assembly Bill 869 out of the Assembly Insurance Committee. I need your help on that front, so we can get in a dialogue with capital sources in California about the best ways to reinvest.

I need your help at the Federal level. We have a good shot this year to raise the amount of money available for federal low income housing tax credits.

HR-175 would increase the tax credit amount in California from about \$400 million to \$560 million and you need to contact your Congressperson. And there's a serious effort to raise the amount of tax exempt bond financing available. HR-864 would raise it from \$1.6 billion for California to \$2.2 billion for California and I need your help.

And finally, I need your help as a partner in engaging the private sector in California in a dialogue about how we best invest in the neighborhoods of California that have been left behind. And the reason you're important partners is because of what you've done.

The fact is that you have developed product lines for affordable housing and you're continuing to do that all the time, most recently, with your private placement program for bonds.

I want you to work with me and my team. In fact Phyllis Klein is here today. Phyllis used to be with Wells Fargo and probably many of you know her. She's now Executive Director of the Debt Limit Allocation Committee.

Let me close with this thought. We've got a very challenging decade ahead of us in California in which we're going to make some very fundamental choices, and I hope the choice will be that we'll grow in a sustainable way and that we'll grow in a way which will best ensure that all Californians have a chance to succeed.

It will be a big challenge, but it's doable.

I want to go back to my friend Cornel West in closing, and another one of his books, called "Race Matters."

He talks about another era of hope and one that often is debunked, but an era in which America accomplished a great deal and that was in the 1960's.

In "Race Matters", Dr. West talks about the two great challenges facing this country that we dealt with in the 1960s. One was poverty and one was the racial divide. And he notes that the 1960s were a watershed period, because this country decided as a people to overcome the racial divide and declare war on poverty.

Within two years of that decision, all of the legal barriers to African American civil rights and voting rights were erased.

Within eight years, one half of American poor people were lifted out of poverty.

It can be done. We did make a difference in this country and we can do it again.

I look forward to working with you given all you've accomplished to making this 21st century for California, the century in which we sustain our economic growth, we set an environmental model for the world and we close the great divide, both physical and economic, which threatens our state.

Thank you very, very much.